THE
FAMILY BUSINESS
CONSULTING GROUP

Choosing Among Siblings

By: Craig E. Aronoff, Ph.D. and John Ward, Ph.D.
The Family Business Consulting Group

Family businesses are an increasingly attractive career choice for the children of business owners — even when more than one child joins the business. Consequently, more families than ever before intend to pass on the leadership of their businesses to multiple offspring. Our surveys of business-owning families show that 40–50 percent will have two or more offspring inheriting the responsibilities of ownership and management. The challenges of "passing the baton" are more difficult when several hands stretch to receive it.

- How do we select one of our children to be the next president?
- The dilemmas can be agonizing: Can the others accept our decision as fair?
- Management lore dictates a single "chief," but can't we be the exception to the rule and share ultimate responsibility among siblings?

Favoring one child over another is appropriately resisted by parents — but business owner/managers need to designate their successors. That often means choosing one child for a job of more status, more pay, and more importance. When several offspring are in the business, this decision is possibly the most troublesome obstacle to succession planning. Too many parents want to believe that if they don't face the succession issue, it will somehow solve itself or go away. Others deal with the dilemma successfully. Here's how various family businesses address the question of leadership when they have a choice.

Some parents make the decision themselves. Others ask advisors or directors for help. Some will leave the decision of future leadership to the children themselves—rationalizing that since they have to live with it, they should make the call. A few businesses can be divided into separate, roughly equal parts so that each child can have his or her own business. But if you can't split the business into one part per child, how do you make the leadership succession decision?

Bite the Bullet

When the best choice is clear, we typically recommend that parents appoint the next leader as early as possible. For example, when the first child to enter the business is exceptionally proven before his or her siblings get established, it is usually best to make and communicate the decision.

Early selection allows everyone to have plenty of time to adjust to the choice. The parents are available if needed to attend to any disappointments.

Competition

Perhaps the most prevalent succession process in nonfamily companies is "survival of the fittest." The leading candidates compete to prove themselves most deserving. While few families relish pitting sibling against sibling, delaying the decision or failing to deal with the issue can produce that result.

Board Forum

A board with outside, nonfamily directors can provide an objective forum to address succession—both how to and whom to choose. The board can propose job assignments that help develop successor candidates in light of their strengths and weaknesses; define the most important capabilities of the next CEO, given the company's future strategic needs; assess family member performance; and assure everyone that the choice of leadership was fair and based on sound business judgment.

This approach to succession is typical in family businesses that have formed effective boards with outside directors. After all, leadership succession is the most important responsibility of the board.

Succession Task Force

The board can be aided in this process by an ad hoc task force that includes key managers and family shareholders. While the board should assume ultimate responsibility, the task force can anticipate other issues in the succession transition. Since other organizational changes frequently accompany leadership changes, the task force can consider such matters as roles for the departing CEO and how to communicate changes to the company and the external world.

Family Consensus

The successor evaluation process the board designs may create an executive team of all the family members eligible for succession consideration. The sibling team can jointly assume the leadership of the company. Over time, the "natural leader" of the group will likely emerge—evident to the family, the organization, and the board. Occasionally, all may agree that the executive team management continue indefinitely.

If interim management by committee doesn't work well or fails to clarify the choice, then the board of directors can step in more actively in the decision-making process. We believe the best result comes when all next-generation family members achieve clear consensus on the choice through a process overseen and reinforced by an effective board of directors.

Whatever succession process is followed and whatever choice is made, the most vulnerable time for the family business comes during and immediately after transition. No family business leader can be successful without the support and commitment of his or her co-owning siblings to the company's strategy and leadership.

To ensure success as well as succession, siblings must develop into a solid team. The company will be no stronger than the bond among the owners.

John L. Ward, Ph.D. is a co-founder of The Family Business Consulting Group, Inc., and can be reached at ward@thefbcg.com or 847.475.3000.

Craig E. Aronoff, Ph.D. is a co-founder and principal with The Family Business Consulting Group, Inc. He can be reached at aronoff@thefbcg.com or 678.277.9865.

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